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Clinton Tax Proposal: All Promise, No Delivery

The Dole Economic Growth Plan has sparked a national debate over the proper course the country should take for economic prosperity. However, while there has been a great deal of scrutiny of the Dole plan, the Clinton tax package has not received the same level of examination. While it is unfortunate for the nation that only half the conversation is being heard, it has been very fortunate for the Clinton Administration. This is because the Clinton tax package is guilty of precisely the shortcomings the Administration is trying to tag on the Dole plan. This is a plan with unrealistic economic assumptions, adverse deficit impact, and sketchy details. To top it off, the Clinton tax proposal makes virtually no attempt to spur economic growth — yet it attempts to claim growth's revenue rewards to pay for spending. Once again like his forgotten '92 middle-class tax cut, the President is making a tax promise he doesn't deliver.

The Dole Plan Enters the Debate

The debate produced by the Dole Economic Growth Plan is about whether America should rely on the private sector or on the public sector for its economic prosperity.

- ***What is the Dole Plan?*** A comprehensive proposal that immediately will increase Americans' take-home pay by cutting income taxes 15 percent and produce more and better jobs through economic growth.

- ***Why Do We Need It?*** The Clinton Administration has produced the worst economic growth record in 50 years, one in which real earnings have fallen and real income has stagnated while taxes have increased.

- ***How Will It Work?*** Taxes can be cut, the budget balanced, and the economy returned to its full potential not by cutting but by restraining the rate of growth of federal spending.

- ***Clinton Response:*** President Clinton will not embrace this solution of government restraint, or even recognize the problem of Americans' need for relief, because he cannot admit that economic growth should take precedence over government's growth.

- ***Clinton Tax Plan:*** Minuscule, misdirected plan that provides virtually no economic growth proposals, contains wildly optimistic assumptions, actually increases taxes or does not allow for a balanced budget, gives few details of its specific elements, and plagiarizes in diluted form parts of the Dole plan.

A Critique of the Clinton Proposal

- **Too small to do the job**: The White House says the economy is doing fine. In reality, it is only when compared to a recession.

  — The Clinton denial of America's sub-par economy has produced a tax plan that personifies the mouse that roared. Despite that the American economy is suffering from slowing growth that has already produced the lowest real growth (2.4 percent versus 4.4 percent) and the lowest productivity increase (0.3 percent versus 2.5 percent) of the last five economic expansions, the White House has proposed only a gross tax cut of $120.5 billion over six years.

  — The Clinton net tax package is actually a tax increase of at least $17.9 billion if we take his budget plan at its word that *"most of the tax cuts would remain in effect beyond the year 2000 only if the Government is meeting deficit reduction targets"* (President's FY 1997 Budget Supplement, page 111). CBO has already estimated that the Clinton FY 1997 budget ***will not balance*** in 2002 as promised.

- **Misdirected as well as minuscule**: Clinton keeps labeling his plan as "targeted." Evidently it is targeted to miss the economy entirely. There is virtually no economic growth component in the package.

- **Wildly optimistic economic growth assumptions**: The Administration says that the Dole camp claims its plan "pays for itself" — yet, this is a claim that the Dole plan has never made.

  — Rather, the Dole plan claims economic "feedback" of $147 billion, which amounts to less than 27 percent of its tax cut, a reasonable figure for a comprehensive plan featuring more than just a tax cut.

  — The Clinton FY 1997 budget, however, claims economic "feedback" of $304 billion, an amount *well more than twice* the amount of its $117.4 billion gross tax cut figure and 12 times the amount of its $25.4 billion net figure.

- **Does not allow for a balanced budget:** The White House says the Dole plan will increase the deficit despite the fact that the Dole plan takes as a starting point a Balanced Budget Constitutional Amendment (which Clinton has twice opposed) and the deficit-eliminating FY 1997 Congressional Budget Resolution (which Clinton opposed). The largest part of the Clinton tax package is contained in his FY 1997 budget, a budget which CBO already has stated will be $81 billion out of balance in 2002.

- **Hides key details of its specific proposals**: The education component (discussed in detail beginning on page 6) of the President's plan is a prime example. This plan is either much smaller in size than claimed or not fully paid for. Without more information, it is impossible to sort out the true size and offsets for the package.

- **Plagiarizes and Dilutes the Dole Plan:** The child tax credit is a case in point. A hallmark of the Balanced Budget Act that Clinton vetoed last year and that Dole includes in his tax proposal, Clinton claims to support it at the same time scaling it back to less than half its original size and then cuts it off two years early.

The Clinton Tax Package: In General, Working without a Net

The Clinton tax proposal is a compilation of three sets of initiatives offered this year. The first and largest is that contained in his budget for FY 1997 released in March. The second is an education-related initiative released in June. The final part was released in August to coincide with the President's party's convention in Chicago.

- **The FY 1997 Budget Tax Proposal**: The Clinton budget for the next fiscal year claimed a total tax cut of just \$117.4 billion over six years. However, it also included \$92 billion in new taxes over the same period. The net effect of the Clinton Administration's claimed tax cut is a minuscule \$25.4 billion over six years — just over \$4 billion annually. The specific items included: a limited child tax credit (\$58.6 billion); expansion of IRAs (\$7.7 billion); education and training incentives (\$41.2 billion); small-business tax cuts (\$5.1 billion); simplification of pension rules (\$1.4 billion); and tax incentives for distressed areas (\$3.4 billion).

- **Here's the Difference:** This proposal would seem to be comparable to the \$122 billion tax cut that Congress's FY 1997 Budget Resolution had specifically accommodated except:

  — First, the net tax relief of the Clinton tax cut is far smaller. The FY97 budget resolution's \$122 billion tax cut is a net figure because it contained no tax hike; in contrast, the Clinton net figure is just \$25.4 billion.

  — Second, the Clinton tax cut would be eliminated during the last two years of Clinton's budget proposal: "*. . . The budget includes a 'trigger' mechanism to ensure fiscal discipline by guaranteeing that most of* ***the tax cuts would remain in effect beyond the year 2000 only if the Government is meeting deficit reduction targets***" [President's FY 1997 Budget Supplement, page 111, March 1996; emphasis added].

  According to CBO's reestimate of the President's FY 1997 budget, the budget would be out of balance by \$81 billion in 2002, thus requiring the tax cuts to be eliminated by the "trigger." CBO estimated that ending these tax cuts would reduce the value of the tax cut by \$33 billion.

  If CBO's analysis of the tax cut-off is accepted, ***the gross tax cut in the President's FY 1997 budget would be just \$84.4 billion*** (President's claimed \$117.4 billion minus CBO's \$33 billion from eliminating the last two years of the tax cut).

The net tax cut would actually turn into a net tax increase of $7.6 billion (President's claimed $117.4 billion tax cut minus $92 billion in claimed tax hikes and minus $33 billion from eliminating the last two years of the tax cut).

- **The Education Tax Proposal:** While the Clinton Administration touted this as a $42.9 billion cut, $41.2 billion of this amount already is included in the FY 1997 budget. This proposal also includes $5.8 billion in new taxes to offset costs. ***The net effect of the education tax proposal is a $4.1 billion increase.***

- **The August Tax Proposal:** Despite the $8.5 billion attributed to the latest proposal, only $1.4 billion actually went to a tax cut — a proposal that increased the amount of capital gains that could be realized tax-free on the sale of a home — with the rest being new spending programs. However, to offset the cost of the whole $8.5 billion package, the Clinton Administration used $6.18 billion in tax increases to pay for them. And so, ***the net effect of the August tax cut proposal is a $4.78 billion tax increase.***

In addition, several of the tax increases that Clinton proposes to pay for the cost of his tax cuts and spending increases have been used by Congress to pay for other initiatives. He simply ignores the fact that they are no longer available as offsets.

If the Clinton budget does not balance as CBO says it does not, then the true effect of Clinton's tax proposals is to increase taxes by $16.48 billion. Even if one accepts the Administration's highly dubious estimate that the budget will balance and the tax cuts will remain in place through 2002, the true effect of Clinton's tax proposals is a paltry $16.53 billion cut over six years.

The Clinton Tax Package: No Economic Growth

As his tax package demonstrates, President Clinton refuses to acknowledge that there is any problem with the current substandard rate of economic growth or that growth could be improved through the private sector. The small size — on either a gross or a net basis — of the Clinton tax package reduces to virtually zero any positive economic impact. If size alone were not sufficient, the targeting of the tax cuts has little positive economic potential.

The most recent tax proposal — the August initiative increasing the amount of tax-free capital gains that can be realized on the sale of a home — addresses an issue of fairness but will have almost no economic impact due to the small number of individuals that will be involved. The education tax cuts also will have little immediate effect on the economy due to the time lag over which additional training and education are received.

No one in the Majority party disagrees that people should keep more of their money — such as with the child credit — but that was taken from the Majority's party's more substantial proposals. And other tax cuts he claims have already been enacted — such as easing the estate tax rules, increasing expensing for small business, and pension simplification provisions in the

Small Business Job Protection Act (HR 3448), which provides $19 billion in aid to small business over the next decade.

A Tiny Tax Plan, But Clinton Still Claims Great Economic Growth

The Clinton FY 1997 budget claims enormous revenue growth. When CBO reviewed the Clinton budget, the White House was found to have estimated revenue growth to be $304 billion higher than CBO did over the six-year period.

Clinton's Claim to Increased Tax Revenue

Source: President's FY 1997 Budget

(In billions of dollars)

	1996	1997	1998	1999	2000	2001	2002	96 to 02
*Tax Revenue Projections Due to Economic Differences	9	24	35	44	54	65	73	304
Clinton Gross Tax Cut	1.26	17.56	14.09	17.53	21.37	22.38	23.20	117.4
Clinton Tax Increases	.20	11.1	13.0	15.3	16.3	17.0	19.1	92.0
Clinton Net Tax Cut	1.06	6.46	1.09	2.23	5.07	5.38	4.10	25.4

* Source: CBO 5/96 "The Economic and Budget Outlook: Fiscal Years 1997- 2002"

In other words, the Clinton budget was claiming a $304 billion return on its policies. However, the economic policy that generated this $304 billion was just a gross tax cut of only $117.4 billion and a net tax cut of just $25.4 billion. And so, ***whereas the Dole plan claims that a quarter of its tax cut would return in the form of higher revenues, the Clinton budget claims that well over twice its gross tax cut and 12 times its net tax cut would return to the Treasury.***

As already shown, there is nothing in any of the more recent Clinton tax proposals that would justify this exorbitant economic "feedback" assumption. If anything, the new Clinton proposals will work to depress economic growth, since they are in effect tax increases.

Clinton Plan Would Increase the Deficit

Odd as it may seem and despite the Administration's claims, the Clinton plan would increase the deficit. How can this be when the Clinton plan is both far smaller and on net a tax increase? In part it's because many of the Administration's claimed offsets are no longer available. And, largely, it's because the Clinton tax plans always have been combined with initiatives calling for increased spending. Since all these loopholes have been claimed by Clinton as offsets, his plan is as much as $22.3 billion short of balance.

Congress has already closed $22.3 billion in corporate loopholes over the next six years. The White House simply can't pay for the new plans with such provisions as the phaseout of the Sec. 936 credit because the loopholes aren't there any more. No indication has been given what provisions this President would use instead.

The bottom line is that unless the White House releases new details as to how the Clinton plan is paid for, or dramatically pares the spending proposals, this plan will increase the deficit.

Take Education: The Clinton Plan Suffers from Lack of Detail

The highly touted and largely unexamined education proposal is rife with double-counting and unexplained provisions, which the White House has used to either inflate the size of the plan or hide its true cost.

The proposal amounts to a two-year $1,500 ($3,000/2 years) refundable credit available to all full-time students ($750/$1,500 for part-time) in certified programs who maintain a "B" average, and stay off drugs. Its price tag: $25.1 billion. It is offset in part by the Airline Departure fee, but not all of that revenue is still available.

There are a number of places where the "dots don't connect:"

- Tax credit: Does this sunset like all other Clinton tax cuts? If it does not, then the program would increase Clinton's deficit in the last two years. If it does, then he is counting spending on his program that will not take place. However, cutting the program off precisely at the end of 2000 would appear to be virtually impossible since students entering college in the fall of 2000 would still seem to be eligible for the full two years' credit at most and for one-year costs at least. The result would seem to be a substantial bleed-over of costs.

- $10,000 Deduction offset: Clinton's education tax policy announced in June really justs amounts to $1.7 billion in additional spending because the original $10,000 deduction in his FY 1997 budget already cost $41.2 billion and is included here. However, Clinton allows that only one of these proposals — either the credit or the deduction — can be used.

- Out-year costs: Because the program does not appear to have a sunset, its future costs could not be met by the one-time Spectrum auction in the out-years. That is at least a $2.1 billion shortfall.

- JCT's estimates the $10,000 deduction cost at $30.9 billion. While $30.9 billion could accommodate sufficient savings to offset the $17.2 billion necessary to pay for the new initiative, it would require even larger proportional reductions in the $10,000 deduction program. If nothing else, Clinton is over-claiming combined education spending by $4.1 billion.

The Child Tax Credit: Plagiarized and Diluted from Dole

When the Clinton tax plan is not exaggerating its size or hiding its costs, it is obscuring its origins. Most of the Clinton tax plan's actual "cuts" come from either Congress's or Dole's proposals. The Clinton child credit is a prime example of the deception on one hand and dilution on the other. While the Dole plan offers a $500 tax credit for every child under 18 years of age, the Clinton credit is extended only to pre-teen children (under age 13), is phased in at just $300 per child in 1997 and 1998 and then cut off two years early along with all Clinton's other tax cuts in his FY 1997 budget. The Clinton child-tax cut is $500 for just two of its claimed six-year life.

Clinton Hallmark: A Refusal to Adhere to Spending Discipline

The Clinton plan ignores America's need for increased economic growth in order to protect the President's anemic growth record. It is a tax plan, not a tax-cut plan, because the tax increases outweigh the smaller tax cuts. Despite being a no-growth plan, its claimed growth effects far outstrip those legitimately attributed to the Dole plan. Perhaps the Clinton plan's greatest weakness is that of all this plan borrows from the Dole plan and the Majority Congress's proposals, it fails to borrow growth elements. This President evidently cannot admit to the shortcomings of his economic policy or to the possibility of even attempting to restrain the rate of federal spending's growth.

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